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Managing talent in a digital age

Online labor platforms make it easier to find—and harder to retain—talented people. They give companies a real opportunity to transform the way they recruit, develop, and engage their employees.

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It's safe to say that when one out of every two working-age adults in the United States has registered for a certain website—LinkedIn, for example, boasts more than 122 million US members—it has achieved critical mass. In fact, LinkedIn and sites like Careerbuilder and Monster.com have changed the way employers and employees connect, and digital marketplaces such as Freelancer.com, Toptal, and Upwork have transformed the sourcing of contractors' services around the world.

Digital labor platforms have also created a more transparent job market. Top performers know their value and are growing more footloose as a result; many are going online to find new opportunities and to evaluate potential employers. What's more, a lot of people now scour platforms such as Glassdoor to learn what current employees have to say about their job satisfaction, company culture, and lifestyle. Companies that don't manage their workplace reputations carefully or engage their employees appropriately will find themselves on the losing side of an increasingly digital war for talent.

A new wave of digital tools can help companies to focus not only on hiring but also on managing, retaining, and developing employees. Digital labor platforms can pull these tools into an integrated whole as companies widen their labor pools, refine their recruiting and screening methods, and deploy their employees more effectively. Such tools, and the platforms that include them, can put the right person in the right job, identify gaps in skills, help employees as they gain new capabilities, chart career paths, and nurture the development of the next generation of leaders.

In short, digital labor platforms occupy a place at the frontier of big data analytics and IT-enabled performance improvement. Companies can capture substantial value by applying digital innovations to some of the most critical organizational challenges: matching the supply of and demand for labor, boosting productivity, and getting the most out of people. McKinsey Global Institute research suggests that businesses deploying digital labor platforms to their full potential could increase output by up to 9 percent, reduce employee-related costs by up to 7 percent, and add an average of 275 basis points to profit margins (exhibit).[1]

To date, many of the gains achieved with digital labor platforms have come through the external ones, such as LinkedIn. But to realize the full potential of the digital approach, it will also be necessary to use internally oriented platforms more effectively, so that organizations and employees can tailor their interactions and the information they share to their unique needs. In this article, we'll highlight several of these newer, more internally oriented applications.
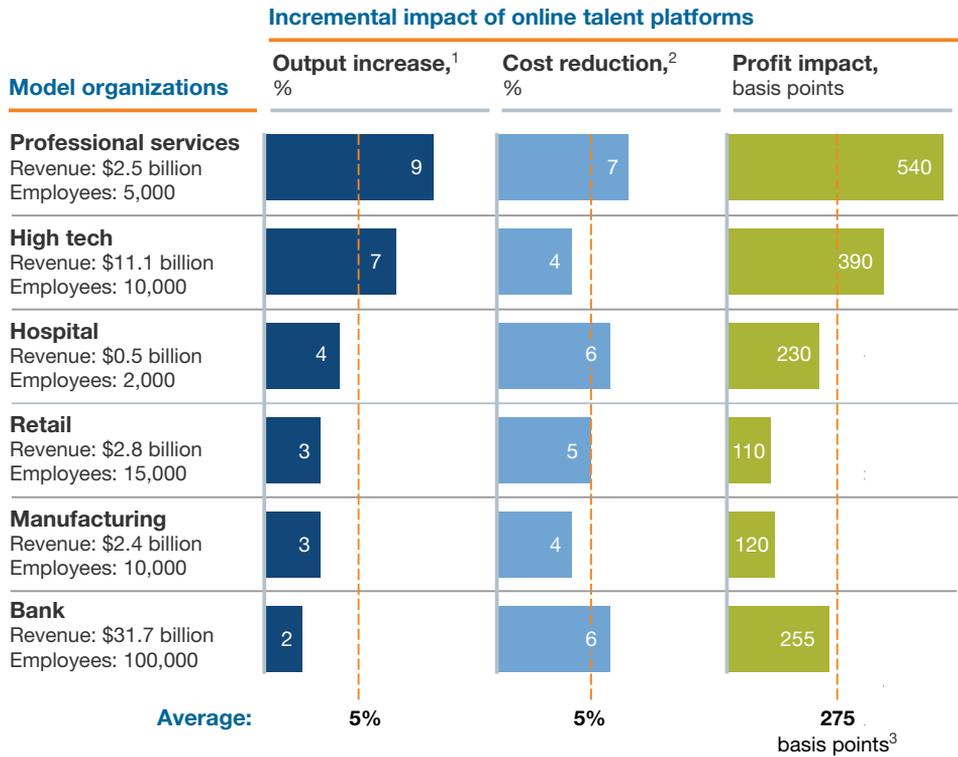
MATCHING LABOR SUPPLY AND DEMAND IN THE NEW ERA

It's no secret that the fight is on to retain the empowered worker. Today's high performers have a better understanding of their own value; competitors and recruiters can now easily discover and screen them. Digital labor platforms make it easy for competitors to pick off the best people inside companies—and enable employees to be more empowered and to announce themselves to the world in previously unimagined ways. These platforms create new opportunities for employers to improve the way they assess and deploy their employees and, by doing so, to differentiate themselves as employers. But the platforms also create intensified competitive challenges and pressures from the external world and from employees themselves. Companies that have relied on large, closed internal labor markets will be under the most pressure.

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[1] This article is adapted from a report by the McKinsey Global Institute. For the full report, see "Connecting talent with opportunity in the digital age," June 2015, mckinsey.com.

Exhibit 1

Using online talent platforms can increase revenues by up to 9 percent and reduce costs by up to 7 percent.

Incremental impact of online talent platforms

Model organizations	Output increase,[1] %	Cost reduction,[2] %	Profit impact, basis points
Professional services Revenue: $2.5 billion Employees: 5,000	9	7	540
High tech Revenue: $11.1 billion Employees: 10,000	7	4	390
Hospital Revenue: $0.5 billion Employees: 2,000	4	6	230
Retail Revenue: $2.8 billion Employees: 15,000	3	5	110
Manufacturing Revenue: $2.4 billion Employees: 10,000	3	4	120
Bank Revenue: $31.7 billion Employees: 100,000	2	6	255
Average:	5%	5%	275 basis points[3]

[1]Includes productivity gains in front- and middle-office workers. These can translate into revenue or other increased-output opportunities.
[2]Includes productivity effect for middle- and back-office workers and savings in recruiting, interviewing time, training, onboarding, and attrition costs.
[3]Figures do not calculate to average, because of rounding.

The increased restlessness and mobility of employees is good for individuals and for the economy, but tough for companies without compelling employee value propositions.

Many companies rely on familiar data points to determine the potential of their existing and prospective employees; HR may focus, for example, on a person's school, academic record, or previous employers. But these can be crude indicators of actual performance. Although Catalyst DevWorks has evaluated hundreds of thousands of IT systems managers, it has found no statistically significant correlation between a college degree and success in

that position. Using sophisticated algorithms to assess innate capabilities as well as IT knowledge, the company now hires, trains, and places a wide range of people, regardless of their educational credentials.

Digital tools can also help companies recruit candidates who are not actively job hunting. For instance, they can search GitHub, which hosts the largest repository of open-source code on the Internet, for examples of excellent coding and then contact its authors for recruiting purposes. TopCoder conducts regular online competitions that allow users, even those without formal training or experience, to showcase their technical skills to the companies that post challenges and award prize money. Codility, HackerRank, HireIQ, and TRUE Talent are additional examples of this emerging data-driven ecosystem, where the range of talent grows wider as subjective hiring biases fall.

Online tests, games, and analytics also improve the recruiting process. Good&Co uses online psychometric tests to assess whether a potential employee would be a good fit with a company's culture and an effective match for a given job. And instituting a 30-minute online screening test comparing an applicant's profile with those of top performers helped one leading company to reduce attrition among new hires and to raise productivity by 3 to 4 percent.

In fact, online labor platforms are already useful for more than just recruiting. Beyond the hiring process, companies can use digital tools to develop a pipeline of employees with diverse skills. As a result, organizations can not only get smarter about the workers they team together and deploy for specific initiatives and tasks but also address the capabilities they will need in the future. (To read more about the possibilities for these tools, see "Organizing for the future," on mckinsey.com.)

MAXIMIZING EMPLOYEE PERFORMANCE

Digital labor platforms help recruit and organize a company's employees, maximize their productivity, and boost their performance in other ways as well. The efficiencies for the company are clear. Done right, the cycle can also be virtuous: workers become more engaged, more fulfilled, and more effective as their careers progress.

Onboarding and training

Labor platforms help create a more comprehensive, personalized, and rapid onboarding experience so that new employees add greater value more quickly. Appical (a Dutch start-up that uses digital games) and LearnUp

(which offers digital training programs for job candidates) are just two of the companies that create tools to make onboarding more productive. Developing an onboarding agenda helped Google boost the productivity of its new hires by up to 15 percent.[2]

In a business environment where technology is evolving swiftly, it's not enough to offer one-time training. Companies in knowledge-intensive industries need mechanisms that support ongoing, self-directed, and virtual learning. Training platforms such as Litmos and Mindflash enable companies to cut back in-person training sessions and create more effective online learning programs.

Raising employee engagement

What's more, predictive analytics can identify employees likely to depart, flagging the need for mentoring, new jobs, or advancement to improve their satisfaction and engagement and thus decreasing employee turnover and raising productivity. Bank of America, for instance, has made its employees more engaged by using Humanyze's sociometric badges (ID cards with embedded sensors that monitor interpersonal interactions) to gauge and improve the cohesion of call-center teams whose turnover dropped sharply as a result.

Wells Fargo has developed a predictive model to select the most qualified candidates for positions as tellers and personal bankers. Working with Kiran Analytics, the company identified the qualities that characterize engaged, high-performing employees in client-facing positions and then screened for those attributes in new candidates. By the end of the program's first year, the retention of tellers and personal bankers rose by 15 and 12 percent, respectively.[3]

Strengthening leadership and creativity

Online labor platforms can help companies cultivate the next generation of leaders; 3M, for example, has created an integrated workforce-planning platform that increased its employees' internal mobility and boosted productivity by 4 percent. Google has taken digital innovation in human resources even further. Its People Analytics unit seeks to answer both tactical and aspirational questions, such as what impact relations among team members have on results and how best to tap the creativity of engineers. The group uses rigorous testing and statistical analysis to inform (but not

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[2] Chris DeRose, "How Google uses data to build a better worker," *Atlantic*, October 7, 2013, theatlantic.com.

[3] Katie Kuehner-Hebert, "Predictive analytics for hiring," *BAI Banking Strategies*, September 6, 2013, bai.org.

replace) human judgment about people decisions. Its proprietary analytics techniques have boosted the productivity of Google's workers, both as individuals and as members of well-functioning teams.[4]

ILLUSTRATING THE POSSIBILITIES

The impact of digital labor platforms and tools is significant and measurable: on average, according to our research, companies can realize an increase of 275 basis points in profit margins. Of course, not every organization will reap the same advantages. The extent of a company's benefit will depend on the mix of people and skills it needs in its workforce and on its specific operating model. The biggest winners will have a large share of highly skilled workers and a frequently shifting mix of project teams. But even companies with mostly low-skilled workers will benefit, since digital platforms improve the assessment, deployment, and performance of candidates and reduce attrition and the need for costly recruiting.

Industry example 1: Brick-and-mortar retailers

Typically, retailers that operate multiple physical stores hire in large volumes and suffer staff turnover as high as 75 percent a year. The majority of retail jobs do not require higher education but do call for excellent people skills. Moreover, seasonal spikes present a particular challenge: demand for workers rises by 50 percent or more during holiday periods. Throughout the year, these companies need to hire, screen, and train people rapidly and repeatedly.

Labor platforms can enhance the recruitment efforts, customer service, and back-office efficiency of such retailers, while predictive hiring can reduce their notoriously high attrition. These platforms also help such companies to identify high-performing workers for advancement and to provide them with tailored training—a priority in an industry where best-in-class organizations source 80 to 90 percent of their managers internally. In all, we estimate that online labor platforms can increase a given retail store's output by 3 percent and reduce talent and HR costs by 5 percent, by enhancing the value of the brand and winning customer loyalty.

Industry example 2: Professional-services firms

Some of the largest gains online labor platforms generate will accrue to professional-services firms. Because they have so many client-facing

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[4] Laszlo Bock, *Work Rules! Insights from Inside Google That Will Transform How You Live and Lead*, New York: Twelve, 2015.

workers and so few back-office ones, the productivity gains will be reflected mostly in increased output, which we estimate can rise by up to 9 percent, while employee-related costs can fall by up to 7 percent. The biggest impact will come from recruiting people with more appropriate skills and from helping employees to access internal knowledge. In global firms, where expertise is dispersed across offices and client work spans industries and functions, digital platforms can help catalog individual expertise at a detailed level. Team-formation tools also take knowledge, interpersonal traits, timing, and geography into account.

EMBRACING THE OPPORTUNITY—AND ADDRESSING THE CHALLENGE

Like any tool, a digital platform for managing people must be wielded properly. Most organizations lack integrated systems to manage their current employees—let alone to identify and engage with potential ones or to develop long-term plans for the needs of the workforce. With multiple systems and fragmented data, HR's visibility into such issues is limited. Migrating data, establishing common standards and protocols, and simply becoming more adept with big data pose significant challenges. (For one company's experience, see "How Ericsson aligned its people with its transformation strategy: An interview with chief HR officer Bina Chaurasia," on mckinsey.com.) Only a few companies, most of them new, approach these challenges in a digitally integrated way.

But companies that adopt digital labor platforms early and develop a more analytic and integrated approach to the workforce stand to gain significant advantages. Digital platforms could reduce the transaction and interaction costs of many day-to-day HR tasks; boost efficiency, innovation, customer service, and employee engagement; and reduce attrition.

Many companies have invested heavily to apply digital tools and big data analytics to other corporate functions but have hesitated at the doors of HR, where human judgment has always been central. They're understandably skeptical about the idea that a more quantified approach to hiring can replace an interviewer's "gut feeling." But external studies and our own research reveal that the analytic approach reduces personal bias and, combined with human judgment, helps to land better hires. New technologies can demonstrably improve the customer experience while holding down the costs of attrition and training—and improving the workplace experience.

Newly empowered employees are already tapping today's wired job markets. Competitive opportunities and easily accessible online tools allow those employees to gain a more informed sense of their external worth. Employers should take note and clearly articulate a value proposition for both present and potential employees. Labor-market fluidity is becoming a whole new ball game. Companies, new and old alike, cannot afford to sit on the sidelines. ⓠ